IPEC LTD.

1999 ANNUAL REPORT

IPEC

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IPEC Ltd. is a substantial and well-financed oilfield services company headquartered in Calgary, Alberta. The Company has two operating divisions: Pipeline and Oilfield Construction, which is involved primarily in installing small- and medium-diameter pipelines, gathering systems and facilities; and Petroleum Equipment and Services, which is involved in the premium threading of oilfield tubulars; the design, engineering, manufacture and distribution of oilfield production equipment and the distribution of construction-grade steel products.

IPEC has demonstrated its ability to create value and is in a strong position to take advantage of further growth opportunities that would provide additional operational strength and shareholder value.

NOTICE OF MEETING

The Annual General and Special Meeting of the Shareholders of IPEC Ltd. will be held on Tuesday, May 16, 2000 at 3:00 p.m. in the Bonavista Room at the Westin Hotel, 320 - 4th Avenue S.W., Calgary, Alberta.

1999 HIGHLIGHTS

Q1
- IPEC acquired two pipeline and oilfield construction companies in Brooks, Alberta and Lloydminster, Alberta for a total cost of $11.6 million
- IPEC completed a private placement of 9,578,810 common shares at a price of $1.05 per share for gross proceeds of $10.1 million

Q2
- IPEC announced an internal reorganization and restructuring of the Company to increase efficiency and maximize returns
- IPEC announced the appointment of R.T. (Tim) Swinton to the position of Executive Chairman
- IPEC closed its unprofitable Chriscor business

Q3
- IPEC announced the appointment of J. Blair Goertzen to the position of President of IPEC Ltd.
- IPEC closed its unprofitable IPEC (Cyprus) Limited operations

Q4
- IPEC cancelled 4,000,000 common shares relating to Chriscor and held in a performance escrow
- IPEC and an offshore supplier severed contractual arrangements which provided for IPEC being the exclusive distributor of the supplier's tubular products in North America, marking the end of the Company's restructuring activities and allowing IPEC to focus on its two core divisions
- IPEC completed a private placement of 4,000,000 shares at a price of $1.50 per share for gross proceeds of $6 million, and a private placement of 9,333,333 common shares at a price of $1.50 per share for gross proceeds of $14 million
- IPEC acquired a competitor's pipeline assets
- IPEC acquired, at year end, the small- and medium-diameter pipeline construction assets, as well as certain other assets, of a former competitor for $30.85 million, substantially increasing IPEC's size and prospects

FINANCIAL HIGHLIGHTS – CONTINUING OPERATIONS

For the Year Ended December 31

		1999	1998
Revenue		**$ 54,310,000**	$ 33,386,000
EBITDA		**$ 3,697,000**	$ 4,941,000
Cash Flow from Operations		**$ 2,099,000**	$ 3,221,000
Per share, fully diluted		**$ 0.05**	$ 0.14
Earnings		**$ 32,000**	$ 2,267,000
Per share, fully diluted		**$ 0.00**	$ 0.07
Working Capital		**$ 12,079,000**	$ 4,523,000
Long-term Debt		**$ 24,416,000**	$ 6,981,000
Shareholders' Equity		**$ 44,837,000**	$ 12,477,000
Net Debt-to-Equity Ratio		**0.3**	0.2
Common Shares Outstanding	– basic	**51,411,000**	26,958,000
	– fully diluted	**55,000,000**	29,646,000

1999 PERFORMANCE VERSUS OBJECTIVES

CORPORATE AND FINANCIAL OBJECTIVES

OBJECTIVE FOR 1999	PERFORMANCE IN 1999
■ restructure and refocus IPEC	■ reduced costs and discontinued unprofitable businesses ■ consolidated into two divisions
■ develop management team of experienced personnel to take IPEC from start-up to established player	■ completed hiring of key personnel
■ complete major growth initiative	■ completed a significant acquisition ■ exited 1999 with a much larger, more profitable business base
■ maintain financial integrity	■ exited 1999 with a balance sheet demonstrating growth and financial strength

OPERATIONAL OBJECTIVES

OBJECTIVE FOR 1999	PERFORMANCE IN 1999
■ integrate prior acquisitions	■ demonstrated significant progress with each continuing business operation achieving profitability in 1999 ■ capitalized on cross-marketing opportunities between operations
■ increase operational capability	■ capitalized on equipment sharing between operations ■ expanded capability through additions to equipment fleet

LETTER TO THE SHAREHOLDERS

INTRODUCTION

IPEC is pleased to report its financial and operational results for 1999, a year in which the Company demonstrated solid performance. Despite a slow start to the year, IPEC achieved success on a number of fronts: completing a successful restructuring, completing meaningful asset acquisitions accretive to the Company's value, raising capital in a market largely uninterested in energy-related issues, and evolving from a marginal player to a significant oilfield service business. By year end, IPEC had become an oilfield service company with strong management, a strong balance sheet and the capacity to generate over $200 million of revenue annually.

CONSOLIDATION AND INTEGRATION

Following an extended period of growth through acquisition from November 1997 to January 1999 which saw the Company acquire eight businesses, IPEC focused on rationalization, integration and consolidation of these assets. The Board of Directors initiated a review of the Company's approach to its business, its strategy, and its structure. This refocus was necessary to ensure the Company's future success, and involved discontinuing the Company's Chriscor downhole tool operations, closing of IPEC (Cyprus) Limited and the termination of contractual arrangements to import and distribute tubulars in North America. In addition, IPEC reduced the number of its operating divisions to two. A reorganization of the Company's head office resulted in the realization of efficiencies and cost savings.

Concurrently, IPEC assembled a management team that propelled the Company through its next phase of growth. In June, R.T. (Tim) Swinton, who had acted as a consultant during the initial restructuring, was appointed Executive Chairman, and brings to IPEC considerable experience in the energy services sector. Mr. Swinton has held several executive positions including Chairman and Chief Executive Officer of Kenting Energy Services Ltd., and Chairman, President and Chief Executive Officer of EnServ Corporation. In September, J. Blair Goertzen was appointed President of IPEC. Prior to joining the Company, Mr. Goertzen served as a Senior Vice President of Precision Drilling Corporation.

1999 ACQUISITIONS

In January, IPEC completed the acquisitions, begun in 1998, of two pipeline construction companies: Band-Jo Oilfield Services Ltd. of Brooks, Alberta and Silverdale Welding and Construction Ltd. of Lloydminster, Alberta for a total cost of $11.6 million. These businesses were complemented in October 1999 by the acquisition of the pipeline and oilfield construction equipment of a marginal competitor.

Following substantial completion of the Company's rationalization, integration and consolidation activities in the third quarter, IPEC again focused on expansion. In December, the Company grew substantially with the acquisition of the small- and medium-diameter pipeline construction assets of "Hartland Pipeline Services Ltd., In Receivership". These assets, which have historically and profitably generated approximately $140 million of revenue annually in a normal operating environment, and for which IPEC paid $30.85 million, were acquired by the former owner during 1998 and 1999 for approximately $72 million.

The acquired assets had been operated in subsidiaries including: Art's Pipeline Contracting Inc., Parkland Oilfield Construction (1983) Ltd., Hat Resources Ltd., SRM Projects (1999) Ltd. and Transline Enterprises Ltd., all of which were involved in the installation and construction of small- and medium-diameter pipelines, gathering systems, and oil and natural gas facilities, and all of which provided expertise in oilfield construction services. IPEC also acquired the assets of another subsidiary, D&K Horizontal Drilling (1998) Ltd., which was primarily involved in drilling pipeline river crossings. As well, IPEC acquired certain other assets currently held for resale. Following this significant acquisition, IPEC hired the requisite key management and other employees to successfully and profitably operate these assets.

In addition to being forecast as accretive to asset value and earnings, IPEC realized a number of benefits from this acquisition, including:

- strengthened financial position
- 800 experienced employees including key management
- potential for over $140 million annually in incremental revenue
- enhanced capability to compete for projects, both large and small
- increased geographic coverage
- increased market awareness and capitalization

The new Management Team at IPEC, assembled to propel the Company through its next phase of growth (l - r): Paul M. Boechler, Vice President Finance and Chief Financial Officer; R. T. (Tim) Swinton, Executive Chairman of the Board; Robert L. Christianson, Vice President Corporate Development; J. Blair Goertzen, President.

1999 EQUITY ISSUES

IPEC completed three financings in difficult 1999 equity markets:

- in conjunction with the Silverdale and Band-Jo acquisitions, IPEC completed a private placement of 9,578,810 common shares at a price of $1.05 per share for gross proceeds of $10.1 million
- in October IPEC completed a private placement of 4,000,000 common shares at a price of $1.50 per share for gross proceeds of $6 million
- in December IPEC completed a private placement of 9,333,333 common shares at a price of $1.50 per share for gross proceeds of $14 million

Lime Rock Partners LLC, a private equity firm specializing in providing growth capital to the energy industry participated in all three financings, and IPEC would like to express its appreciation for their continued support.

IPEC TODAY

The Company today is considerably larger, more streamlined, focused and profitable than it was at this time last year. IPEC has total assets of $87 million and shareholders' equity amounting to $45 million, compared with assets of $33 million and shareholders' equity of $12 million at December 31, 1998. At year end, IPEC had $12 million of working capital and only $24 million of long-term debt. The Company operates two divisions, the Pipeline and Oilfield Construction Division, which comprises eight operations with facilities throughout Alberta and in northeast British Columbia, and the Petroleum Equipment and Services Division comprising three operations with a facility in High River, Alberta and two in Casper, Wyoming.

OPERATING ENVIRONMENT

The early part of 1999 was marked by a continuation of the slump in oil prices that began in the fall of 1997. Oil prices reached near record lows in January before beginning to climb in March, increasing to more than US$25 per barrel by summer and US$28 in mid-November. During the first eight months, low oil prices negatively impacted the Company with the most difficult industry environment for pipeline construction in several years. Natural gas prices remained strong, climbing from a low of just above $2.00/Gj in March to a high of just under $4.00 in November before ending the year hovering between $2.50 and $2.75. Spending on natural gas related projects increased, and the Company benefited from the demand for natural gas related production equipment. Overall, decreased cash flows and lack of equity financings in the exploration and production sector resulted in capital budget reductions and, consequently, in reduced customer demand.

Pipeline and Oilfield Construction Division activity levels began to increase in the third quarter and, by the end of August, most of the Company's equipment was deployed. However, pricing was unacceptable until later in the year when it strengthened in conjunction with demand rising. Petroleum Equipment and Services Division activity levels also rose as the demand for construction-grade pipe and pipe threading increased. The demand for natural gas production equipment remained steady throughout the year.

FINANCIAL RESULTS

We are pleased that in a year marked by a challenging operating environment and substantial restructuring costs, IPEC generated a profit from its continuing operations.

From continuing operations for the year ended December 31, 1999 revenue was $54 million compared to $33 million in 1998; cash flow was $2.1 million compared to $3.2 million; and net income was $32,000 compared to $2.3 million [$0.07 per share]. After taking into account discontinued operations, the 1999 loss was $396,000 [$0.01 per share] compared to earnings of $2.1 million [$0.07 per share] in 1998. Positive earnings from continuing operations were achieved despite significant restructuring costs expensed in 1999. We are very pleased that at year end our working capital stood at $12 million with long-term debt of $24 million. Shareholders' equity rose significantly to $45 million and total assets to $87 million. At year end, IPEC had available and undrawn bank operating lines of credit for $30 million. The Company's financial condition is sound.

LOOKING FORWARD

The industry forecast for 2000 activity remains optimistic. IPEC will focus on operations and successfully integrating its recent acquisition to ensure value is created, on maintaining conservative financial practices and on broadening the Company's base with another acquisition or merger later in the year. IPEC is fortunate that, although our recent acquisition was from a receiver, ongoing operations do not reflect the problems of the former owner. We expect to generate substantial free cash flow in the year ahead, enhancing an already strong balance sheet as the year progresses.

In closing, we would like to express our appreciation to our employees, management and the IPEC Board of Directors for their continued hard work, advice and support. We would also like to welcome the approximately 800 employees new to IPEC as a result of our recent acquisition. We are looking forward to another year of progress toward our goal of being a well-run, profitable and diversified oil and natural gas services company.

On behalf of the Board of Directors

R.T. (Tim) Swinton
Executive Chairman, IPEC Ltd.

J. Blair Goertzen
President, IPEC Ltd.

REVIEW OF OPERATIONS

OPERATIONAL FOCUS IN 1999

IPEC's overall operational focus in 1999 centered on the rationalization, consolidation and integration of its businesses. This focus resulted in the Company closing its unprofitable Chriscor business and Cyprus operations, and the termination of distribution of oilfield tubulars manufactured in China. Significant progress was made in the integration of the Band-Jo and Silverdale acquisitions. This focus is continuing in early 2000, given the very significant acquisition on December 31, 1999 of small- and medium-diameter pipeline and oilfield construction assets.

Operationally IPEC recognizes that its greatest strength is in its people and significant effort has been, and continues to be made to ensure that our most valuable resource is motivated and fairly treated.

PIPELINE AND OILFIELD CONSTRUCTION DIVISION

Until the end of December, the Pipeline and Oilfield Construction Division consisted of Commanche, and Band-Jo and Silverdale, both acquired in January 1999. All three of these operations are involved in small-diameter pipeline construction, gathering system installation, gas and oilfield facility construction, and pipeline and facility repair and maintenance. As with the oil and gas services industry in general, activity levels lagged slightly behind rising oil prices, with a slow first quarter followed by increasing activity through the second quarter, and near full utilization by the end of the third quarter.

The first nine months of 1999 were, industry wide, the most difficult experienced by small- and medium-diameter pipeline contractors in several years. Therefore, this division focused on integrating and streamlining operations to maintain profitability in a very difficult operating environment. The environment changed in the third quarter and during the later part of the year all operations experienced increased activity levels and improved margins. The business again focused on profitably delivering superior services to the customer.

Following the December 31 asset acquisition, Band-Jo was combined with the newly acquired assets in Brooks, Alberta to form Cypress Pipeline & Oilfield Construction. As well, Commanche's operations in Medicine Hat, Alberta were augmented by the addition of the small- and medium-diameter assets formerly operated by Hat Pipeline Ltd.

In addition, the December 31 acquisition involved assets operated by Parkland Oilfield Construction (1983) Ltd., SRM Projects (1999) Ltd. and Transline Enterprises Ltd., which are used for small- and medium-diameter pipeline construction services. Newly formed Parkland Oilfield Construction (2000) Ltd., the largest operation in this division, is heavily involved in the construction of laterals for the Alliance Pipeline. The horizontal drilling assets acquired are primarily used for pipeline river crossings.

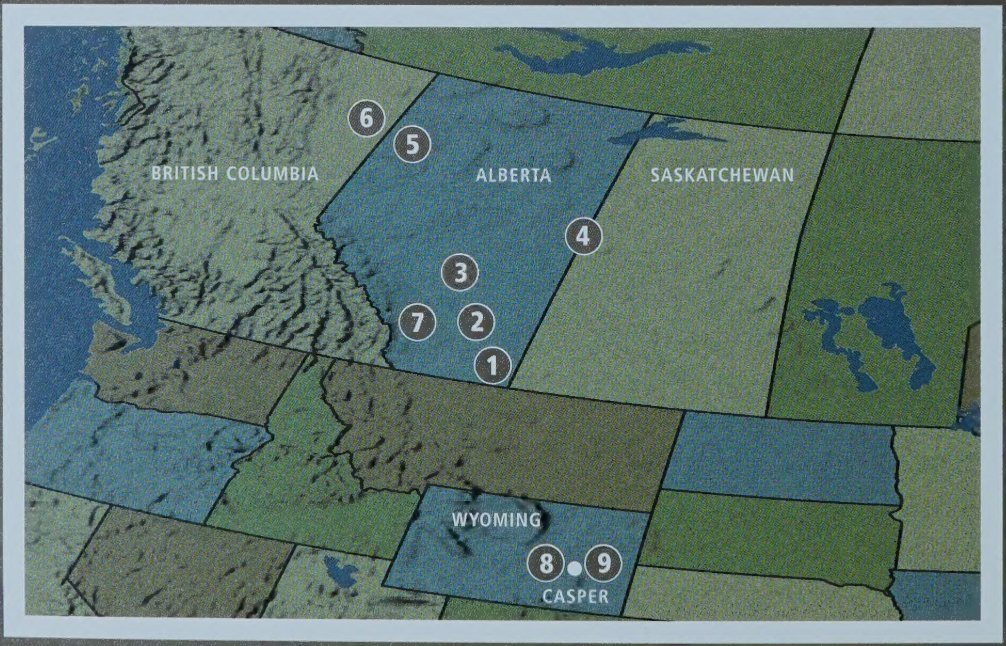
IPEC's Pipeline and Oilfield Construction Division has facilities in northeast British Columbia and throughout Alberta. The Company's Petroleum Equipment and Services Division has plants in High River, Alberta and Casper, Wyoming.

Pipeline and Oilfield Construction Division

1. **COMMANCHE** – Pipeline and Oilfield Construction, Medicine Hat, Alberta
2. **CYPRESS** – Pipeline and Oilfield Construction, Brooks, Alberta
3. **PARKLAND** – Pipeline and Oilfield Construction, Olds, Alberta
4. **SILVERDALE** – Pipeline and Oilfield Construction, Lloydminster, Alberta
5. **SRM** – Pipeline and Oilfield Construction, Fairview, Alberta
6. **TRANSLINE** – Pipeline and Oilfield Construction, Fort St. John, B.C.

Petroleum Equipment and Services Division

7. **CHRISTIANSON PIPE** – Structural Pipe and Equipment, High River, Alberta
8. **GREY-MAK PIPE, INC.** – Premium Pipe Threading, Casper, Wyoming
9. **J.W. WILLIAMS, INC.** – Design, Engineering and Fabrication, Casper, Wyoming



The asset acquisition from the receiver was unique in that IPEC was able to secure a significant backlog of work following the acquisition. The Company was also fortunate in hiring a large number of the key management personnel who had formerly managed the acquired assets. This key management group, together with the employees hired, have a strong track record of operating the assets acquired on a profitable, stand-alone basis.

IPEC came into 2000 with approximately $80 million of backlogged work, which the Company anticipates completing on a profitable basis. During 2000, this division expects to realize synergies with respect to purchasing, sharing of a significantly larger equipment pool and through cross marketing. Operationally, the focus will be on small- and medium-diameter pipeline construction and completing such projects in a manner that places a high emphasis on safety, environmental compliance and customer satisfaction.

PETROLEUM EQUIPMENT AND SERVICES DIVISION

In the second quarter, following the discontinuation of Chriscor and IPEC (Cyprus) Limited, the former Tubulars and Production Equipment Divisions were combined into one division, the Petroleum Equipment and Services Division, comprising Christianson Pipe, Grey-Mak Pipe, Inc., and J.W. Williams, Inc.

J.W. Williams, Inc., located in Casper, Wyoming provides design, engineering and fabrication services to the petroleum, petrochemical, gas processing and mining industries in markets in the United States, Canada and internationally. J.W. Williams' primary market is the gas-prone U.S. Rocky Mountain Basin in which its manufacturing facilities are located. Their products include processing systems and gas plants, and modular components such as pressure vessels, air-cooled exchangers, oilfield storage tanks and oil and gas separators.

IPEC's environmentally friendly Pipeline Plow installs 2-inch to 4-inch pipeline
up to a depth of six feet while reducing the required right-of-way
and eliminating the need for topsoil stripping.
The Pipeline Plow can be two to four times faster than conventional ditching.

J.W. Williams' results remained strong throughout the year because of the high demand for production equipment related to natural gas projects in the Rocky Mountain region of the United States. In response to rising concerns regarding the emission of greenhouse gases, J.W. Williams designed a hydrocarbon vapour control device which provides a smokeless and efficient alternative to natural gas flaring. The device has been on the market since the third quarter and shows promise as a proprietary product.

Grey-Mak Pipe, Inc., located in Casper, Wyoming specializes in end finishing, or threading, of casing and tubing to API (American Petroleum Institute) and premium specifications in the Rocky Mountain area. Grey-Mak is also involved in the precision machining and sale of oilfield tools, pipe, couplings, thread protectors and other accessories directly related to the oil and natural gas industry. This operation serves a customer base which includes steel mills, major pipe distributors, and oil companies active in the Rocky Mountain Basin as well as mining companies and water well service companies.

Grey-Mak was adversely affected by low oil prices in early 1999; however, pipe-threading operations increased substantially in June, and continued to increase over the remainder of the year. Activity remains strong in early 2000.

Christianson Pipe, with a plant in High River, Alberta is actively involved in the distribution of structural and commercial grade pipe and hollow structural sections. Pipe that cannot be graded as prime product is classified, by producing mills at the time of manufacturing, as structural grade pipe and/or limited service pipe. Christianson sells this grade of material into the oil and gas construction industry for piling and other structural purposes. Other markets include the construction, steel fabrication, agriculture, mining and snow-making industries. Markets for the structural product include both Canada and United States.

Due to continued low oil prices and the consequent curtailment of spending among oil exploration and production companies, the pipe available to Christianson for resale in the first nine months of 1999 was substantially lower than in 1998. However, supply and sales began to increase near the end of the second quarter, strengthened throughout the balance of the year, and have gained momentum going into 2000.

CORPORATE GOVERNANCE

IPEC Ltd. is currently a CDNX-listed company but, in the interests of good corporate governance and with a view to the future, is taking steps toward compliance with the guidelines developed by The Toronto Stock Exchange.

IPEC Ltd. understands that it is the responsibility of the Board of Directors to manage the business affairs of the Company, and to identify principal risks of the Company's business and ensure the implementation of appropriate systems to manage these risks. In addition to its regular duties, other Board responsibilities include the approval of material acquisitions and new business ventures.

The Board discharges this responsibility by selecting management and delegating day to day operations to them. Management is accountable for running the business in the best interests of the shareholders and ensuring adequate internal controls are in place to mitigate risk, all in accordance with the direction and guidance of the Board.

The Board consists of seven members, the majority of whom are considered unrelated directors and three of whom are considered related directors because of their positions as officers of the Company.

The Board does not have a nomination committee; candidates for nomination to the Board are considered by the Board as a whole. The Board of Directors has addressed orientation and education programs for new directors through informal discussions and reference materials. There is no mandatory retirement policy for the directors.

As part of its duties regarding the stewardship of the Company, the Board is responsible for the development of a strategic plan.

AUDIT COMMITTEE

The Audit Committee is composed of non-management members who review and, if appropriate, recommend the financial statements to the Board for approval. The Audit Committee reviews management reporting, internal financial and operating controls, policies and practices with management and the auditors.

COMPENSATION AND CORPORATE GOVERNANCE COMMITTEE

The Board of Directors has established this committee, comprising non-management directors, primarily to provide evaluations and recommendations to the Board concerning management structure and compensation of key management personnel, to review management's compensation plans for the business, to make recommendations regarding appropriate compensation for directors, and to develop the Company's approach to matters of corporate governance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

IPEC's success during 1999 began with the reorganization of the Company and included hiring new senior management, refocusing the business strategy, reducing costs and consolidating the Company's business into two operating divisions.

As part of the restructuring, IPEC closed its unprofitable businesses and discontinued a tubular products distribution contract. The operations of Chriscor were closed in June and the assets were sold in November for a nominal amount. Chriscor had been acquired in 1997 through the issue of common shares. In October, IPEC successfully cancelled 4,000,000 of the 6,000,000 performance-based escrow shares issued on the acquisition. IPEC's Cyprus office was closed in September. The contract to distribute tubulars manufactured in China was terminated due to its high working capital requirements, gross margins, and the business risk associated with holding inventory.

IPEC completed the acquisitions of Band-Jo and Silverdale effective January 1, 1999. This was done in conjunction with the raising of capital through an equity issue at $1.05 per share with gross proceeds of $10.1 million. IPEC then established new credit facilities with its primary lenders in Canada and the United States. In Canada, a $5 million term loan repayable over five years in equal payments replaced a high-interest bearing acquisition line established in 1998. In the United States, the Company established term loans of US$1.5 million for each of Grey-Mak and J.W. Williams, replacing various mortgages and other debt. A $5 million operating line was set up for Canadian operations and a US$3.5 million operating line was established in the United States. IPEC also combined and consolidated insurance plans, employee benefits and information systems that had been set up by the acquired businesses. A second equity issue at $1.50 per share in October for gross proceeds of $6 million further improved financial strength and positioned the Company for growth. Also in October, IPEC purchased the assets of a marginal competitor in southern Alberta for $1 million, the equipment of which was used to augment existing capacity in this area of the province.

On December 31, 1999 IPEC completed its most significant growth initiative to date when it acquired all of the small- and medium-diameter pipeline and oilfield construction assets of "Hartland Pipeline Services Inc., In Receivership" for $30,850,000. This acquisition substantially enhanced the Company's financial position, size, and operating and earnings capabilities. Given the nature of the en bloc bid for the acquisition, significant assets were acquired that IPEC recognized as surplus. These are segregated on the balance sheet as assets held for resale, and include several parcels of real estate located in Nova Scotia and Alberta as well as an airplane, condominium apartment and surplus equipment. In addition to the assets acquired, IPEC assumed the responsibility for five contracts relating to construction of laterals for the Alliance pipeline project and having various completion dates throughout the first nine months of 2000. The three largest of these contracts are currently well underway.

As a result of the acquisition at December 31, 1999 IPEC's balance sheet reflects $2.6 million of assets held for resale, an increase of $27.6 million to its capital assets and $4.3 million of deferred revenue. The deferred revenue relates to a payment received from a third party as compensation to enable the Company to realize a normal industry return on the Alliance contracts assumed, net of related arrangements.

This acquisition did not include any liabilities or current assets. IPEC established an additional $25 million operating line with its primary banker to ensure sufficient working capital was available to fund operations. The acquisition was financed through the issue of 9,333,333 common shares at $1.50 per share for gross proceeds of $14 million, as well as the establishment of a $19.3 million term loan.

CONSOLIDATED RESULTS FOR THE YEAR ENDED DECEMBER 31, 1999

Due to the reorganization of the businesses into two operating divisions, IPEC changed the presentation of its historic information to reflect its current operating format. Comparative results for 1998 to 1997 are not presented due to the Company's commencement of operations in 1997.

Revenue – Continuing Operations

During 1999, IPEC's revenue was almost evenly split between its two divisions. Revenue totaled $54.3 million for 1999 compared to $33.4 million for 1998. Most of the improvement for 1999 occurred in the Pipeline and Oilfield Construction Division, which increased to $26.2 million from $6.9 million in the previous year, primarily due to the acquisitions of Band-Jo and Silverdale. Petroleum Equipment and Services revenue increased to $28.1 million from $26.5 million in 1998.

The year-end acquisition significantly increased
IPEC's ability to compete in the pipeline and oilfield construction sector
and, when combined with IPEC's existing operations,
improves the Company's earnings and cash flow potential.

Operating Income

Operating income increased marginally during 1999, but not in proportion to the increase in revenue. This was a result of lower operating margins in a much more competitive market. Gross margins were 18.8% in 1999 compared to 27.4% in 1998. The Pipeline and Oilfield Construction Division saw the greater decline in gross margins as excess capacity in the industry caused increased competition for available work. Comparative information for 1998 is for the six months from the acquisition of Commanche, which had margins of 38% during that period compared to 1999 margins of 19.8%. In the Petroleum Equipment and Service Division, gross margins declined to 17.8% from 24.8% in 1998 with only J.W. William's operation showing growth in 1999 over 1998 for both revenue and earnings.

General and Administrative and Reorganization Costs

During the first nine months of the year, IPEC restructured to refocus its business strategy under new leadership and, as a result, incurred consulting, legal, severance and other one-time costs. Cash restructuring costs amounted to $1.6 million in 1999. In an effort to establish IPEC as an efficient and cost-effective company, overhead costs in the head office were reduced and the corporate art collection was sold. General and Administrative costs increased to $4.9 million in 1999 from $4.2 million in 1998. This increase was due to the additional operations acquired and higher corporate costs during the first part of the year. Management anticipates that in spite of the large acquisition at year end, only modest head office overhead cost increases will be required.

Interest Expense

Interest costs were higher in 1999 due in part to an acquisition loan which was refinanced in March of 1999 at prime plus 1% compared to prime plus 5% during the first quarter of the year. In addition, debt was added with the acquisition of two pipeline and oilfield construction businesses and the financing of unprofitable operations during the first part of the year.

Net Earnings

IPEC had earnings of $32,000 from continuing operations after restructuring costs of $1.6 million. A loss from discontinued operations resulted in a net loss of $396,000 for the year compared to earnings of $2.1 million in 1998.

LIQUIDITY

At December 31, 1999 IPEC had working capital of $12 million. This, combined with unused operating lines of Cdn$30 million and US$3.5 million, provides IPEC with sufficient working capital to finance its significantly expanded current operations. During 1999, IPEC reduced its inventory position with

the conclusion of the imported tubular distribution contract, reducing operating line usage from its US dollar borrowings associated with these operations.

CAPITAL RESOURCES

Three equity issues during 1999 strengthened IPEC's financial position and allowed the significant acquisition of assets to be financed while maintaining conservative financial ratios of long-term net debt to equity of 0.3. The number of shares issued during the year was partially offset with the cancellation of 4,000,000 common shares from a performance-based escrow issued in 1997. The net effect was the issue of 18,912,000 common shares during the year for gross proceeds of $30.4 million. Interest on the $19.3 million term loan is at prime plus 1% with no pre-payment penalties and quarterly payments of $691,071 with a balloon payment of $5.5 million in February of 2005. IPEC expects to significantly reduce this term loan during the year.

BUSINESS RISKS

IPEC is an active participant in the oilfield services industry and, as such, is impacted primarily by spending or activity levels of oil and natural gas producers, as well as by interest and foreign exchange rates. Any one, or all, of these items can effect IPEC's profitability; accordingly, the Company minimizes its exposure to these factors through effective risk management, diversified service offerings focused on the production side of the well bore, and maintenance of a strong financial position. The establishment of lines of credit in the United States against a portion of the Company's US-generated revenue reduces the exposure to currency fluctuations.

YEAR 2000

IPEC is pleased to advise that its preparations regarding the transition into the year 2000 were satisfactory, and that the Company experienced no material disruptions to its computer systems relating to Y2K issues.

OUTLOOK

The material year-end acquisition significantly increased IPEC's capacity in its Pipeline and Oilfield Construction Division. The assets acquired are capable of producing from $110 to $170 million of revenue annually on a profitable basis. These assets combined with IPEC's existing operations should dramatically improve the Company's earnings and cash flow potential. Activity in the oil and gas service sector is predicted to remain strong during 2000, allowing IPEC the opportunity to utilize its expanded capacity.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of IPEC Ltd. is responsible for the preparation of all the information included in this Annual Report. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and, where necessary, include amounts based on management's informed judgements and estimates. Financial information included elsewhere in this report is consistent with the consolidated financial statements.

Management maintains an appropriate system of accounting and administrative controls to provide reasonable assurance that the transactions are appropriately authorized, assets are safeguarded and financial records are properly maintained to provide reliable financial statements. In addition, programs of proper business conduct and risk management have been implemented to protect the Company's assets and operations.

KPMG, Chartered Accountants, appointed by the shareholders, have audited the consolidated financial statements and conducted a review of internal accounting policies and procedures to the extent required by generally accepted auditing standards, and performed such tests as they deemed necessary to enable them to express an opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee reviews the financial content of the Annual Report and meets regularly with management and KPMG to discuss internal controls, accounting, auditing and financial matters. The Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements.

Executive Chairman

Vice President, Finance and Chief Financial Officer

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of IPEC Ltd. as at December 31, 1999 and 1998 and the consolidated statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

KPMG LLP

Calgary, Canada
February 25, 2000

IPEC LTD.

CONSOLIDATED BALANCE SHEETS

As at December 31	1999	1998
Assets		
Current assets:		
Cash	$ 6,422,713	$ –
Accounts receivable	14,586,613	11,181,549
Inventories (note 3)	5,673,356	6,488,143
Assets held for resale	2,580,000	–
	29,262,682	17,669,692
Capital assets (note 4)	46,134,432	10,869,184
Goodwill (note 5)	11,799,810	4,066,599
	57,934,242	14,935,783
	$ 87,196,924	$ 32,605,475
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 6)	$ –	$ 5,830,115
Accounts payable and accrued liabilities	8,020,537	5,385,200
Deferred revenue	4,350,000	–
Due to related parties (note 7)	–	1,260,605
Current portion long-term debt (note 6)	4,813,198	670,638
	17,183,735	13,146,558
Long-term debt (note 6)	24,416,274	6,981,550
Future income taxes (note 11)	760,396	–
	25,176,670	6,981,550
Shareholders' equity:		
Share capital (note 9)	44,440,771	10,911,982
Cumulative translation adjustment	–	369,525
Retained earnings	395,748	1,195,860
	44,836,519	12,477,367
	$ 87,196,924	$ 32,605,475

Refer to note 8 for commitments.

See accompanying notes to consolidated financial statements

Approved by the Board

Director Director

IPEC LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31	1999	1998
Sales:		
Petroleum equipment and services	**$ 28,140,672**	$ 26,484,410
Pipeline and oilfield construction	**26,169,588**	6,902,062
	54,310,260	33,386,472
Cost of sales:		
Petroleum equipment and services	**23,129,046**	19,911,043
Pipeline and oilfield construction	**20,979,925**	4,296,768
	44,108,971	24,207,811
	10,201,289	9,178,661
Expenses:		
General and administrative	**4,893,043**	4,238,120
Interest	**1,046,378**	605,816
Depreciation	**1,761,599**	823,839
Amortization of goodwill	**582,739**	121,005
Corporate reorganization	**1,610,893**	–
	9,894,652	5,788,780
Earnings from continuing operations before income taxes	**306,637**	3,389,881
Income taxes (note 11):	**274,653**	1,123,092
Earnings from continuing operations	**31,984**	2,266,789
Loss from discontinued operations (note 10)	**(427,705)**	(175,304)
Net earnings (loss)	**(395,721)**	2,091,485
Retained earnings (deficit), beginning of year	**1,195,860**	(895,625)
Adjustment due to change in accounting policy (note 1)	**(404,391)**	–
Retained earnings, end of year	**$ 395,748**	$ 1,195,860

Refer to note 12 for per share information.

See accompanying notes to consolidated financial statements

IPEC LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31	1999	1998
Cash flows from (used in):		
Operations:		
Earnings from continuing operations	**$ 31,984**	$ 2,266,789
Adjustments for:		
Depreciation and amortization	**2,344,338**	944,844
Future / deferred income taxes	**(216,148)**	70,161
Amortization of lease incentive	**(60,785)**	(60,785)
Funds from operations	**2,099,389**	3,221,009
Net change in non-cash working capital	**3,967,277**	(9,540,527)
	6,066,666	(6,319,518)
Funds from (used in) discontinued operations	**(915,541)**	1,254,682
	5,151,125	(5,064,836)
Financing:		
Issue of common shares:		
For cash, net of issue costs	**29,624,273**	6,280,346
On exercise of stock options	**280,300**	32,600
Long-term debt	**21,211,869**	4,743,171
Due to related parties	**(1,844,025)**	384,949
Long-term lease incentive	**–**	349,520
	49,272,417	11,790,586
Investments:		
Business combinations (note 2)	**(38,444,668)**	(10,884,086)
Capital asset additions	**(3,924,448)**	(2,540,861)
Capital asset disposals	**198,402**	830,795
	(42,170,714)	(12,594,152)
Increase (decrease) in cash position	**12,252,828**	(5,868,402)
Cash position*, beginning of year	**(5,830,115)**	38,287
Cash position*, end of year	**$ 6,422,713**	$ (5,830,115)

* Cash position is defined as cash less bank indebtedness.

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 1999 and 1998

FORMATION AND BUSINESS OF THE COMPANY

IPEC Ltd. (the "Company") is an oilfield services company operating in Canada and the United States. IPEC Ltd. provides services relating to the installation of pipelines and gathering systems and the design, engineering and manufacturing of oilfield production equipment and supplies. The Company was incorporated on August 1, 1996 and is publicly listed on the Canadian Venture Exchange.

1. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared by Management in accordance with generally accepted accounting principles in Canada. Since the determination of many assets, liabilities, revenues and expenses is dependent on future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of Management, these financial statements have been prepared within reasonable limits of materiality following the significant accounting policies summarized below.

(i) Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries.

(ii) Inventories

Inventories are valued at the lower of cost and net realizable value.

(iii) Capital assets

Capital assets are stated at cost. Depreciation is provided using the following methods and annual rates:

Buildings	declining-balance	5%
Furniture and fixtures	declining-balance	20%
Construction equipment	declining-balance	10% to 15%
Automotive equipment	declining-balance	30%
Other equipment	declining-balance	15%
Leasehold improvements	straight-line	5 years

(iv) Revenue recognition

On construction contracts, revenue is accrued using the percentage-of-completion method. Revisions in cost and profit estimates during the course of the work are reflected in the period in which the need for the revision becomes known, including provision for any anticipated losses. Contracts sometimes contain incentive and/or penalty provisions based on performance relative to established targets which are included in revenue or cost estimates when such amounts can reasonably be determined.

All other revenue is recognized at the time products are shipped or services are rendered under binding sales agreements with the customer.

(v) Goodwill

Goodwill represents the excess of the purchase price over the net identifiable assets on acquisitions and is amortized on a straight-line basis over 20 years unless a write-down is required to reflect permanent impairment. Impairment if any is determined by comparison of the unamortized balance of goodwill and associated operating costs with undiscounted future cash flows.

(vi) Foreign currency translation adjustment

The accounts of the Company's self-sustaining foreign operations are translated into Canadian dollars using the current rate method whereby assets and liabilities are translated at the year-end exchange rate and revenue and expenses are translated at average exchange rates for the period. Gains and losses arising from the translation of the financial statements of the foreign operations are deferred in a "cumulative translation adjustment" account in shareholders' equity.

(vii) Income taxes

The Company provides for income taxes using the asset and liability method. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and the benefit of losses available to be carried forward for tax purposes that are likely to be realized. Future income tax liabilities and assets are measured using tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. Any change to the net future income tax assets and liabilities is included in income in the year it occurs.

The foregoing represents a change in policy which has been applied with retroactive effect but without restatement of prior period financial statements and resulted in a $404,391 reduction in retained earnings, a $257,676 increase in share capital and a $475,065 increase in accumulated goodwill.

(viii) Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

2. BUSINESS COMBINATIONS

(a) Acquisition of assets from Hartland Pipeline Services Ltd. In Receivership

The Company purchased, entirely for cash, certain small and medium diameter pipeline construction equipment and other assets effective December 31, 1999.

The assets have been recorded as assets held for resale of $2.6 million and capital assets of $27.6 million. The amount attributed to the assets held for resale approximates their market value. The Company assumed certain construction contracts with negotiated modifications and received $4.3 million of deferred revenue.

(b) Acquisition of Band-Jo Oilfield Services Ltd. and Silverdale Welding Ltd.

Pursuant to an agreement dated August 7, 1998, the Company purchased effective January 1, 1999, 100% of the shares of Band-Jo Oilfield Services Ltd. ("Band-Jo") in consideration for 2,630,873 common shares and $3.5 million cash.

Pursuant to an agreement dated August 7, 1998, the Company purchased effective January 1, 1999, all of the shares of Silverdale Welding Ltd. ("Silverdale") for 2,212,500 common shares and $4.4 million cash.

The purchases were accounted for using the purchase method with the purchase price allocated as follows:

	Band-Jo	Silverdale
Non-cash working capital	$ (109,874)	$ (141,662)
Capital assets	2,420,000	4,050,000
Goodwill	4,423,562	3,417,323
	6,733,688	7,325,661
Long-term debt	(986,599)	(23,021)
Future income tax liability	(382,962)	(1,045,184)
Net assets excluding cash position	5,364,127	6,257,456
Cash position	147,373	(133,706)
Net assets acquired	$ 5,511,500	$ 6,123,750
Consideration:		
Cash (including transaction costs)	$ 3,660,000	$ 4,575,000
Common shares	1,851,500	1,548,750
	$ 5,511,500	$ 6,123,750

(c) Acquisitions in 1998

Pursuant to agreements dated February 27, 1998 and effective January 1, 1998 the Company purchased the operating assets of Christianson Pipe Ltd. ("CPL") from a related party, 100% of the common shares of Grey-Mak Pipe, Inc. ("GPI") from a related party and 100% of the common shares of J.W. Williams, Inc. ("JWI"). Pursuant to an agreement dated July 21, 1998, the Company purchased effective July 1, 1998, 100% of the common shares of Commanche Construction Ltd. ("CCL"). The purchases are set out as follows:

	CPL	GPI	JWI	CCL
Non-cash working capital	$ 1,105,645	$ 2,418,513	$ 774,787	$ (426,323)
Capital assets	1,928,381	1,414,285	3,070,410	3,000,000
Goodwill	–	–	593,336	3,535,000
	3,034,026	3,832,798	4,438,533	6,108,677
Long-term debt	(387,213)	–	(859,298)	(715,465)
Net assets excluding cash position	2,646,813	3,832,798	3,579,235	5,393,212
Cash position	(261,324)	(1,258,432)	(290,521)	223,844
Net assets acquired	$ 2,385,489	$ 2,574,366	$ 3,288,714	$ 5,619,056
Consideration:				
Cash	$ 1,476,085	$ 1,246,548	$ 957,964	$ 5,619,056
Common shares	909,404	1,327,818	2,330,750	–
	$ 2,385,489	$ 2,574,366	$ 3,288,714	$ 5,619,056

Pursuant to an agreement dated February 27, 1998, the Company purchased from a related party 100% of the common shares of IPEC (Cyprus) Limited in exchange for the issuance of 1,440,000 common shares.

3. INVENTORIES

	1999	1998
Raw materials	$ 2,959,303	$ 567,003
Work in progress	866,425	988,932
Finished goods	1,847,628	4,932,208
	$ 5,673,356	$ 6,488,143

4. CAPITAL ASSETS

December 31, 1999	Cost	Accumulated Depreciation	Net Book Value
Land	$ 2,504,444	$ –	$ 2,504,444
Buildings	6,477,106	2,096,626	4,380,480
Furniture and fixtures	1,367,881	681,139	686,742
Construction equipment	33,408,979	5,037,610	28,371,369
Automotive equipment	7,177,667	1,662,032	5,515,635
Leasehold improvements	479,645	185,849	293,796
Other equipment	8,862,055	4,480,089	4,381,966
	$ 60,277,777	$ 14,143,345	$ 46,134,432

December 31, 1998	Cost	Accumulated Depreciation	Net Book Value
Land	$ 1,581,311	$ –	$ 1,581,311
Buildings	4,917,261	1,946,137	2,971,124
Furniture and fixtures	1,171,445	547,169	624,276
Construction equipment	4,199,782	1,335,377	2,864,405
Automotive equipment	1,487,237	945,862	541,375
Leasehold improvements	505,299	42,503	462,796
Other equipment	6,209,224	4,385,327	1,823,897
	$ 20,071,559	$ 9,202,375	$ 10,869,184

5. GOODWILL

The accumulated amortization of goodwill at December 31, 1999 is $713,956 (1998 - $121,005).

6. BANK INDEBTEDNESS AND LONG TERM DEBT

During 1999, the Company established new credit facilities as follows:

Current operating facilities

(a) A $25 million operating loan payable on demand and revolving, secured by a first floating charge over certain receivables and inventories, plus a second floating charge over all capital assets. At December 31, 1999 there was no amount drawn on this loan.

(b) A $5 million operating loan payable on demand and revolving, secured by a first floating charge over certain receivables and inventories, plus a second floating charge over all capital assets. At December 31, 1999 there was no amount drawn on this loan.

(c) Revolving operating lines totaling $3.5 million U.S., secured by a floating charge over accounts receivables and inventories of the U.S. operations.

Term loans

(a) A non-revolving acquisition loan for $19.35 million, secured by acquired assets. It has a five-year term with no repayment penalties and is to be repaid in equal quarterly repayments amortized over 7 years with a balloon payment at the end.

(b) A capital loan for $5 million is payable on demand and non-revolving, is secured by capital assets and repayable in equal monthly payments to January 2004.

(c) Two $1.5 million U.S. non-revolving term loans, maturing in 2004 with payments in equal monthly amounts of principal and interest on a 10 year amortization with a balloon payment at the end of the period. The loans are secured by first real estate mortgages, equipment and general intangibles of the Company's U.S. subsidiaries.

	1999	1998
Long-term debt		
Term loans	$ 27,760,655	$ 5,673,378
Capital leases	1,233,304	1,106,655
Related parties and other	235,513	872,155
	29,229,472	7,652,188
Less current portion	(4,813,198)	(670,638)
	$ 24,416,274	$ 6,981,550

The credit facilities bear interest at bank prime plus 0.25% to 1%. On the operating loans, the Company has the option of using the banker's acceptance rate plus a stamping fee of 1.5% to 2.0%. On the term loans, the Company has the option of using the banker's acceptance rate plus a stamping fee of 1.75%.

Interest on long-term debt included in interest expense amounted to $1,040,015 (1998 - $277,198).

Capital leases with interest rates varying from 3.5% to 10% are secured by specific charges on the equipment financed.

Estimated future principal repayments are as follows:	
2000	$ 4,813,198
2001	4,592,625
2002	4,330,034
2003	4,310,297
2004	5,654,739
Beyond 2004	5,528,579
	$ 29,229,472

7. DUE TO RELATED PARTIES

These demand amounts were repaid in full on March 3, 1999 with interest at rates from bank prime to 12% per annum.

8. OPERATING LEASE COMMITMENTS

The Company has various leases on its office premises as well as fleet vehicles. The total future commitments under these lease agreements are estimated to be approximately $530,000 per year until November 2003.

9. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares

Unlimited number of preferred shares issuable in series

3,500,000 Convertible preferred shares Series 1

(b) Issued

Common shares	Number of shares	Amount
Balance December 31, 1997	7,513,000	$ 218,644
Issued on acquisition of companies or assets	10,181,800	4,191,359
Issued pursuant to special warrants offering net of issue costs	5,600,000	6,280,346
Issued on exercise of stock options	163,000	32,600
Issued on conversion of preferred shares	3,500,000	189,033
Balance December 31, 1998	26,957,800	10,911,982
Adjustment due to change in accounting policy (note 1)	–	257,676
Issued on private placements net of issue costs	22,912,144	29,590,563
Issued on acquisition of companies (note 2)	4,843,373	3,400,250
Issued on exercise of stock options	698,000	280,300
Cancellation of performance based escrow shares	(4,000,000)	–
Balance December 31, 1999	51,411,317	$ 44,440,771

(c) Escrow agreements

1,547,200 (1998 - 9,760,800) common shares are subject to performance escrow agreements which provide for release upon the attainment of certain conditions by the Company or its subsidiaries.

3,024,268 (1998 - 3,990,934) common shares are subject to escrow agreements which provides for releases over a period of three years.

(d) Stock options

The Company has an incentive stock option plan for employees, officers and directors. Options issued under the plan may be exercised at a rate of 20% on the award date and 20% on each of the four following award date anniversaries.

	1999		1998	
		Weighted average		Weighted average
Fixed options	Shares	Exercise price	Shares	Exercise price
Outstanding at beginning of year	2,687,530	$ 0.84	1,087,000	$ 0.20
Granted	2,390,000	$ 1.14	1,763,530	$ 1.25
Exercised	(698,000)	$ 0.41	(163,000)	$ 0.20
Cancelled	(790,530)	$ 0.91	–	$ –
Outstanding at end of year	3,589,000	$ 1.10	2,687,530	$ 0.89
Options exercisable at year-end	1,376,500	$ 0.97	624,726	$ 0.20

	Options outstanding		Options exercisable	
Range of Exercise Price 12/31/99	Number Outstanding	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.20 - $0.99	250,000	$ 0.20	250,000	$ 0.20
$1.00 - $1.70	3,339,000	$ 1.17	1,126,500	$ 1.14

10. DISCONTINUED OPERATIONS

(i) Chriscor

On November 5, 1999 the Company sold the remaining assets of Chriscor for cash proceeds of $160,000. The business had effectively been discontinued on June 30, 1999.

(ii) IPEC (Cyprus) Limited

On September 30, 1999 the Company closed its operations in Cyprus.

(iii) Tubular Distribution Contract

On September 29, 1999, the Company discontinued the distribution of tubulars manufactured in China and

commenced the disposal of inventories held. The remaining inventory relating to this operation at December 31, 1999 amounted to $666,639 and there were no remaining liabilities.

The comparative financial statements for 1998 have been restated to reflect the discontinued operations as follows:

	1999	1998
Revenues	$ 4,589,204	$ 24,264,862
Income taxes current	$ 42,078	$ (136,830)
Future / deferred income taxes	$ (550,413)	$ (470,857)
Loss from operations	$ 326,345	$ 175,304
Loss on discontinuance	101,360	–
	$ 427,705	$ 175,304

11. INCOME TAXES

The consolidated income tax provision differs from the amount computed by applying the combined Canadian federal and provincial income tax rate to consolidated earnings before income taxes as follows:

	1999	1998
Expected combined Canadian federal and provincial income tax rate	44.62%	44.62%
Expected provision for income taxes	$ 136,821	$ 1,512,565
Increase (decrease) in income taxes resulting from:		
Differences in foreign income tax rates	(210,888)	(248,622)
Non-deductible items	274,567	61,892
Loss carry forward utilization	–	(147,246)
Other	74,153	(55,497)
Income tax expense related to continuing operations	$ 274,653	$ 1,123,092
Income tax expense/recovery related to continuing operations is represented by:		
Current	$ 490,801	$ 1,052,931
Future / deferred	(216,148)	70,161
	274,653	1,123,092
Income tax recovery related to discontinued operations	(508,335)	(607,687)
	$ (233,682)	$ 515,405

The components of the net future income tax assets and liabilities are as follows:

Future income tax assets:	
Share issue costs	$ 328,000
Loss carryforwards	1,843,000
	2,171,000
Future income tax liabilities:	
Capital assets	2,931,396
Future income tax liability – net	$ 760,396

The Company has non-capital loss carryforwards of $4,119,000 (1998 - $1,471,000) available as deductions against future taxable income. The loss carryforwards expire as follows:

2001	$ 90,000
2002	$ 94,000
2003	$ 588,000
2004	$ 189,000
2005	$ 502,000
2006	$ 2,656,000

12. PER SHARE INFORMATION

		1999		1998
Earnings (loss) per share				
Basic:				
Continuing operations	$	0.00	$	0.10
Discontinued operations		(0.01)		(0.01)
	$	(0.01)	$	0.09
Fully diluted:				
Continuing operations	$	0.00	$	0.07
Discontinued operations		(0.01)		(0.00)
	$	(0.01)	$	0.07

Per common share amounts are calculated based on the weighted average number of common shares outstanding during 1999 and 1998 of 39,171,645 and 22,664,655 respectively.

Fully diluted amounts reflect the exercise of all outstanding options and warrants and an imputed after tax rate of 10% (1998 – 5%).

13. FINANCIAL INSTRUMENTS

The carrying amount of cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximates fair value due to the short maturities of these instruments. The carrying value of long-term debt approximates the fair value given the floating nature of the applicable interest rates. The Company is exposed to interest rate risk through its bank indebtedness and long-term debt.

The Company does not believe it is subject to any significant concentration of credit risk.

Through its US operations, the Company is exposed to foreign currency fluctuations. The effect of these fluctuations is not expected to be material due to the relative size of those operations.

14. SEGMENTED INFORMATION

Industry Segments

Year ended December 31, 1999	Petroleum Equipment and Services	Pipeline and Oilfield Construction	Head Office	Consolidated
Sales	$ 28,140,672	$ 26,169,588	$ –	$ 54,310,260
Cost of sales	23,129,046	20,979,925	–	44,108,971
	5,011,626	5,189,663	–	10,201,289
Depreciation	413,137	817,966	530,496	1,761,599
Amortization			582,739	582,739
Interest expense	415,772	167,409	463,197	1,046,378
Subtotal	$ 4,182,717	$ 4,204,288	$ (1,576,432)	6,810,573
General & administrative				4,893,043
Reorganization costs				1,610,893
Income taxes				274,653
Loss from discontinued operations				427,705
Net Loss				$ (395,721)
Total assets	$ 28,453,013	$ 48,492,097	$ 10,251,814	$ 87,196,924
Capital additions	$ 906,094	$ 44,744,925	$ 118,463	$ 45,769,482

Year ended December 31, 1998	Petroleum Equipment and Services	Pipeline and Oilfield Construction	Head Office	Consolidated
Sales	$ 26,484,410	$ 6,902,062	$ –	$ 33,386,472
Cost of sales	19,911,043	4,296,768	–	24,207,811
	6,573,367	2,605,294	–	9,178,661
Depreciation	371,442	160,872	291,525	823,839
Amortization			121,005	121,005
Interest expense	346,777	221,456	37,583	605,816
Subtotal	$ 5,855,148	$ 2,222,966	$ (450,113)	7,628,001
General & administrative				4,238,120
Income taxes				1,123,092
Loss from discontinued operations				175,304
Net Earnings				$ 2,091,485
Total assets	$ 18,987,816	$ 8,891,535	$ 4,726,124	$ 32,605,475
Capital additions	$ 9,401,135	$ 6,417,104	$ 569,658	$ 16,387,897

Geographic Segments

Year ended December 31, 1999	Canada	United States	Consolidated
Sales	$ 32,432,513	$ 21,877,747	$ 54,310,260
Cost of sales	26,610,110	17,498,861	44,108,971
	$ 5,822,403	$ 4,378,886	$ 10,201,289
Capital assets and goodwill	$ 52,377,871	$ 5,556,371	$ 57,934,242

Year ended December 31, 1998			
Sales	$ 14,441,411	$ 18,945,061	$ 33,386,472
Cost of sales	10,702,321	13,505,490	24,207,811
	$ 3,739,090	$ 5,439,571	$ 9,178,661
Capital assets and goodwill	$ 9,502,277	$ 5,433,506	$ 14,935,783

IPEC LTD.

CORPORATE INFORMATION

EXECUTIVE MANAGEMENT

R.T. (Tim) Swinton
Executive Chairman

J. Blair Goertzen
President

Paul M. Boechler
Vice President Finance,
Chief Financial Officer
and Corporate Secretary

Robert L. Christianson
Vice President
Corporate Development

DIRECTORS

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Executive Chairman
IPEC Ltd.
Calgary, Alberta

Robert L. Christianson
IPEC Ltd.
Calgary, Alberta

John Clarkson [(1) (2)]
Clearwater Capital
Calgary, Alberta

John Hokanson
Tetonka Drilling Inc.
Edmonton, Alberta

Dwayne Howrish
Grey-Mak Pipe, Inc.
Casper, Wyoming

Martin A. Lambert [(1) (2)]
Bennett Jones
Calgary, Alberta

John Reynolds [(1) (2)]
Lime Rock Management LP
Westport, Connecticut

(1) Audit Committee
(2) Compensation and Corporate Governance Committee

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